INTERIM REPORT

SALZGITTER AG
Stahl und Technologie

- Satisfactory group result due to balanced portfolio
- Steel Division at economic turning point
- Still gratifying development at the Tubes Division

First Half of 2002

Salzgitter Group

		First half 2002	First half 2001	Δ
Sales (consolidated)	€ m	2,367	2,283	4 %
Steel Division	€ m	748	774	-3 %
Trading Division	€ m	865	842	3 %
Services Division	€ m	118	119	-1 %
Processing Division	€ m	53	58	-9 %
Tubes Division	€ m	583	490	19 %
Flat rolled products	€ m	1,052	1,056	0 %
Sections	€ m	349	313	12 %
Tubes	€ m	707	601	18 %
Proportion of exports	%	54	53	
Employees				
Personnel costs	€ m	445	398	12 %
Average annual workforce		18,642	16,945	10 %
Result from ordinary activities	€ m	50	84	-41 %
Net income	€ m	49	71	-31 %
Balance sheet total	€ m	3,887	3,549	10 %
Fixed assets	€ m	1,985	1,646	21 %
Current assets	€ m	1,902	1,903	0 %
Inventories	€ m	848	754	12 %
Shareholders´ equity	€ m	1,101	1,031	7 %
Borrowings	€ m	2,786	2,518	11 %
Provisions	€ m	1,970	1,958	1 %
Liabilities	€ m	816	560	46 %
thereof to banks	€ m	165	86	92 %
Investments[1)]	€ m	115	115	0 %
Depreciation	€ m	111	101	10 %
Key data				
Earnings before interest and taxes (EBIT)[2)]	€ m	60	91	-34 %
EBIT before depreciation and amortization (EBITDA)	€ m	171	192	-11 %
Return on capital employed (ROCE)[3) 4)]	%	9.1	15.7	
Cashflow from current activities	€ m	41	24	73 %

1) Excluding financial assets
2) EBT plus interest paid (excluding the interest element in transfers to pension provisions)
3) EBIT in relation to the total of the shareholders´ equity, minority equity interests and tax provisions (excluding deferred taxes) and interest-bearing liabilities
4) Annualized

Management Report

Summary
The first half of the financial year 2002 had been expected to benefit from a revival in the world economy. In the final instance, however, this upswing failed to materialize to the extent anticipated. Accordingly, the markets were prey to some considerable uncertainty as to how sustainable the improvement would prove to be. Global political tensions, an accompanying trend towards new restrictions on competition and some far-reaching distortions in the capital markets all added up in fueling this uncertainty. During the second quarter, the European steel industry passed the economic turning point with the successful implementation of price increases coupled with an increasing order intake. Nevertheless, at the Steel Division of Salzgitter AG this improvement in the market situation was reflected only in a relatively modest result for the first half-year, as only a small volume of sales have initially been invoiced on better terms due to the high proportion of long-term price agreements and the effect of order throughput times. At the Tubes Division, business in most product areas continued at a consistently satisfactory level. In the second quarter, orders received for some products actually began to increase once again. Overall, the results at the Tubes Division were once again gratifying.

For the coming months, selling prices of flat rolled products in particular are expected to rise further while the effects of exchange rates should depress the costs of buying in some raw materials, with the consequence that results at the Steel Division are likely to improve. The Tubes Division should continue to remain in profit, albeit at a lower level than in the first six months. In summary, Salzgitter AG currently sees no cause to deviate from its published forecast for the financial year 2002, namely of a consolidated pre-tax profit of some € 90 million, equivalent to a profit after taxes of € 75 million and earnings per share of € 1.20.

Key data for the 1st half of the financial year 2002:

- **Consolidated external sales: € 2.37 billion**
  (+4 % vs. 1st half-year 2001)
- **Pre-tax profits: € 50 million**
  (-41 % vs. 1st half-year 2001)
- **Net income for the period: € 49 million**
  (-31 % vs. 1st half-year 2001)
- **EBT Steel Division: € -26 million**
- **EBT Tubes Division: € 61 million**
- **ROCE 1st half-year 2002: 9.1 %**
  (1st half-year 2001: 15.7 %
  – in each case annualized)

Market development
Since the beginning of this year, indicators have been highlighting a positive trend in industrial production in all major regions of the world. The downward movement in the economy that has been evident over the past year would therefore seem to have come to a halt. However, the consequences of this decline in terms of investor and consumer confidence, as well as for employment, have yet to be overcome.

Likewise in the Euro zone, there have been signs that a worldwide economic recovery is slowly beginning. Exports in particular have contributed a positive impetus. By contrast, domestic demand has remained modest. Evidently confidence in a growth-oriented development in the economy has yet to harden, a fact that has been expressed most clearly in the continuing reticence to invest. Even though advance indicators offer hope of a rapid upturn and GDP growth rates in the Euro zone in the third and fourth quarters are likely to accelerate, economic researchers anticipate that the weak start into the year will limit the increase for the year as a whole to figures in the region of 1.1 % to 1.3 %.

In Germany the economic turn around in the first half-year began with exports which have exhibited some remarkable growth rates since the beginning of the year. However, the foundation for this economic revival has remained a narrow one. Domestic demand has remained weak, contrary to expectations there has yet to be a revival in investment activities, and private consumption has actually declined during the first half-year. Nevertheless it is anticipated that the mood will become more buoyant as the year proceeds, not least because loosening the strings of monetary policy should have a noticeably positive effect on investments. The increase in value of the euro may on the one hand damp down exports, but at the same time it puts a brake on price increases and stimulates domestic demand. In its summer forecast one of Germany's economic research institutes neatly summed up the medium-term outlook for the German economy with the words: **"Up without much swing".**

Business situation within the Group

Thanks to its balanced product portfolio, the Salzgitter Group has stood up comparatively well in this still weak and therefore challenging economic environment.

Consolidated Group sales in the first half of the financial year 2002 amounted to € 2.367 billion, some 4 % up on the figure of € 2.283 billion in sales for the same period last year. This positive development is due on the one hand to a clear increase in performance at the Tubes Division by comparison with the preceding year, as well as to the contributions made by companies which were not yet consolidated in the first half of last year, namely Universal Eisen und Stahl GmbH (UES), Robert & Cie S.A.S. (Robert), as well as DMV Stainless S.A.S. (DMV) and EUPEC PipeCoatings GmbH (EUPEC).

With the inclusion of V & M Tubes and Hüttenwerke Krupp Mannesmann (in each case on a pro rata basis), in the first half-year 2002 the Group produced a total of 4.0 million tonnes of crude steel.

The pre-tax result for the first half of 2002 amounted to € 50 million. In comparison with last year's outstandingly good first half (€ 84 million), this represented a decline of 41 %. However, profits after taxes fell by only 31 % to some € 49 million (previous year € 71 million). The principal cause for this decline lies in particular in the economic difficulties besetting the market served by the Steel Division, whereas the Tubes Division once again reported a gratifying trend in business. In view of the critical economic situation and the downbeat mood affecting the world economy as a whole, the consolidated result may indeed be regarded as satisfactory. Included in the consolidated result are non-operational components amounting to € 7.1 million emanating from the balance of other income deriving from sales of participating interests as well as various transfers to and liquidations of provisions. A positive contribution of € 4 million is attributable to the holding, under the heading of miscellaneous/consolidation.

Moving on from the pre-tax result, EBIT (earnings before income and taxes) amounted to € 60 million (-34 % vs. first half of 2001), with an EBITDA (EBIT before depreciation and amortization) of € 171 million (-11 % vs. first half of 2001). These EBIT and EBITDA figures do not include the interest element in transfers to pension provisions; including this item yields an EBIT of € 105 million and an EBITDA of € 216 million.

The most important indicator in the financial success of Salzgitter AG, the return on capital employed (ROCE), amounted to 9.1 %, falling short of the figure for the first half-year 2001 (15.7 %).

On June 30, 2002 Salzgitter AG had net bank borrowings in the amount of € 94 million. At the end of the same period last year, the net financial position vis-à-vis banks was a positive € 185 million. One of the major causes for this increase in indebtedness was the change in the group of consolidated companies, with particular reference here to the member companies of the UES and DMV groups. The resulting effect here alone amounted to € 80 million. In addition, implementing internal and external growth strategies entailing high levels of investment in steel production in the course of the financial year 2002 has consumed further resources. The investments of € 115 million during the reporting period remained on a par with the first half of 2001. A total of € 67.5 million was accounted for by the Group's contribution to the purchase of North Star Steel Tubes Division by our associate company Vallourec & Mannesmann Tubes S.A. (V & M). Moreover, the dividend for the financial year 2001 was paid out in the second quarter of 2002. Therefore, financial resources have been maintained at a stable level.

The increase by € 338 million (some 10 %) in comparison with the first half of 2001 which took the balance sheet total to € 3.887 billion is principally explained by the newly consolidated companies UES, Robert, DMV and EUPEC. On the assets side, consolidation led to an increase in property, plant and equipment, inventories and receivables. In terms of liabilities, integrating the named companies resulted in an increase in trade accounts payable, liabilities to banks and other liabilities.

From an economic perspective – in consideration of the negative difference resulting from the consolidation of capital as well as minority interests – the equity ratio lies at 34 % (last year: 35 %).

At the end of the first half of 2002, the Group employed a regular workforce of 18,596: that is to say, 1,612 employees or 9 % more than at the end of the same period last year. This increase is due to the integration of Robert, DMV, UES and EUPEC into the consolidated group. As of the end of June 2002, there were 689 trainees engaged at the Group (June 30, 2001: 628).

Steel Division

The downturn in the level of activity in the major steel-consuming sectors was sharper than expected in the first half of this year. Steel consumption in the EU evidently reached its low point in the first quarter of 2002. In the course of the macroeconomic development that took place in the second quarter, there was a subdued revival in business activities in the principal consumer industries. Positive signs were apparent in the hardware, tinware and metal products sector and among capital goods. By contrast, automobile production in the EU fell further than expected. In Germany 8 % less automobiles were produced between January and June 2002 than in the same period last year with different effects but the manufacturers were affected differently, whereby individual manufacturers were affected to varying degrees.

The reduction in inventories came to an end during the first quarter. A significant rise in orders from steel service centers (SSCs) during the second quarter made it clear that the turning point in the inventory cycle had been reached. The increase in visible consumption is therefore likely to accelerate in the second half of the year. This development has been accompanied by a sustained recovery in revenues that began in the second quarter and can similarly be confirmed in the third. Support was forthcoming in the form of the comparatively low level of imports that has largely kept the market in balance.

In the first half of the financial year 2002 the Steel Division of Salzgitter AG produced a total of 2.555 million tons of crude steel, including 2.052 million tons of LD steel and 0.503 million tons of electrosteel. This volume is only slightly lower than in the first half of 2001. Production of rolled steel including input stock for processing reached 2.482 million tons, up 8 % on the previous year (2.289 million tons). Shipments of rolled steel and processing products amounted to 2.523 million tons, up 9 % on the year before (2.324 million tons). Rolled steel accounted for 2.400 million tons (+8 %); products for processing accounted for 123 thousand tons (+15 %).

The Steel Division achieved external sales of some € 748 million, only mildly short of the total of € 774 million for the same period last year (-3 %). Overall sales (excluding sales within the Division) amounted to € 986 million, remaining approximately on a par with the comparison period level (€ 981 million). Salzgitter Flachstahl GmbH contributed € 559 million in sales, Peiner Träger GmbH € 214 million, while Ilsenburger Grobblech GmbH returned € 158 million and Salzgitter Großrohr GmbH posted sales of € 55 million.

The Division ended the first half of 2002 with a pre-tax result of € -26.4 million. (Same period in 2001: € +41 million). Included in the Divisional result are non-operational expenses in the amount of € 7.5 million as a precautionary measure to safeguard against, among others, the effects of the latest fluctuations in the US $ exchange rate on ore and coal supplies. After adjustment for these effects, the results achieved by Salzgitter Flachstahl GmbH and Peiner Träger GmbH each remain negative, while Ilsenburger Grobblech GmbH and Salzgitter Großrohre GmbH ended the period with profit.

Group Divisions

	Consolidated sales			
€ T	**2nd quarter 2002**	**1st half-year 2002**	**2nd quarter 2001**	**1st half-year 2001**
Steel	364,497	747,712	348,602	774,279
Trading	432,963	864,725	422,893	841,991
Services	62,029	118,262	57,860	118,857
Processing	28,856	52,625	27,031	57,600
Tubes	305,948	583,218	286,904	490,122
Miscellaneous/consolidation	0	0	0	0
Group	**1,194,293**	**2,366,542**	**1,143,290**	**2,282,849**

	Result from ordinary activities			
€ T	**2nd quarter 2002**	**1st half-year 2002**	**2nd quarter 2001**	**1st half-year 2001**
Steel	-12,515	-26,441	15,411	40,554
Trading	2,617	6,621	1,011	3,513
Services	4,628	6,860	4,286	8,345
Processing	-3,802	-4,911	-1,876	-1,788
Tubes	35,573	60,815	21,970	36,342
Miscellaneous/consolidation	3,350	7,001	-3,153	-2,702
Group	**29,851**	**49,945**	**37,649**	**84,264**

Segmental data by Divisions

The unsatisfactory situation with regard to flat rolled products improved only marginally in the course of the second quarter. Even though price increases for flat rolled products have been successfully implemented since the beginning of the second quarter, their initial impact on results has been marginal. This is due to the comparatively high proportion of long-term contracts as well as to throughput times that lead to a time lag in the effects of price increases filtering through. Further price increases which have meanwhile already been implemented, coupled with an easing in the purchase prices for certain raw materials owing to the dollar exchange rate, should lead to an improvement in Steel Division results in the coming quarters. Already in the first half of the year, new agreements on prices for various raw materials and energy supplies have been established. A reduction has been negotiated in the price of iron ore. In comparison with the average for the financial year 2001, the purchase prices for scrap, electricity and coking coal have risen, while the costs of heavy heating oil and natural gas have fallen.

Orders received in the reporting period amounted to 2.60 million tons, representing a 19 % improvement over the same period last year (2.19 million tons). Orders on hand on June 30, 2002, were up 25 % at 1.31 million tons (first half of 2001: 1.05 million tons). This positive development gives cause to look forward to a satisfactory level of activity in the months to come.

As of June 30, 2002, the Steel Division employed a total workforce of 6,999 (regular employees, excluding trainees and work experience staff). This represented a decline of just 5 members of staff in comparison with June 30, 2001.

The program of major investments in the hot strip line was continued as planned. The beam blank casting plant at the Peine works is being brought into operation.

The negative effects of the restrictions imposed by the US on imports of steel have not been as severe as had initially been feared. Isolating the US internal market in contradiction of the principles of free trade has in fact triggered substantial price rises in that market which from time to time have led to a price differential vis-à-vis Europe of around € 100 per ton of rolled steel. The weakness of the euro in the first half of 2002 and the announcement by the EU that it would itself introduce defensive import restrictions have likewise lessened the damage suffered by the European steel industry.

The second quarter saw the blocking of an antidumping suit filed in 2001 by US manufacturers against supplies of steel sections from, among others, Germany and the EU. Thus it is now once again possible to supply the US market with sectional products, as these goods are not subject to any import restrictions.

Trading Division

The weakness in the world economy has had a similarly noticeable effect on both European and German steel trading companies. It has been reflected in a sustained weakness in the demand for trading products in Western Europe. Likewise with just a few exceptions, demand in the majority of third country markets has been no more than moderate. The situation in North America has remained difficult due to the economic weakness and to the existing import restrictions. With the exception of Mexico, the Latin American market has stagnated. In Asia and in the Near East and Middle East, with the exception of Iran, Singapore and China, trading activity has been weak, whereas the positive trend in demand has continued in African markets.

In Germany in the construction industry in particular, which is of considerable importance for steel trading, no change for the better was apparent in the first half of 2002.

In contrast to this generally bleak situation, the Trading Division of the Salzgitter Group recorded some highly positive progress in the first half-year. At 2,300 Tt sales were 12 % up on the same period last year (2,051 Tt). On the one hand this increase results from expanding the group of consolidated companies to include UES and Robert. On the other hand, growth was achieved also thanks to a highly gratifying development in the international trading activities of Salzgitter Stahlhandel (SDH), which more than compensated for the decline in steel stockholding sales.

The stockholding business in Germany recorded a drop in sales in comparison with last year, in reflection of the German economic situation. The stockholding trading companies in the Benelux countries, on the other hand, recorded a satisfactory development in their business, actually exceeding last year's sales figures in terms of both volume and value. In international trading, the negative effect of the weak economic climate was no more than marginal. Despite weak demand from North America and the limited impetus emanating from many of the Asian markets, the comparatively buoyant business situation in China, Mexico, Singapore and some African countries was sufficient to more than compensate for the negative effects described.

At the remaining companies in this Division, the Hövelmann & Lueg and Robert steel service centers and plate specialist UES, the volume and value of sales and results were essentially in line with expectations.

In the first half of 2002 the Trading Division achieved total sales of € 885 million, representing an increase of 3 % over the same period last year (€ 857 million). The integration of UES and Robert into the group of consolidated companies contributed some € 78 million. External sales amounted to € 865 million, likewise up 3 % on the preceding year (€ 842 million).

The pre-tax profit amounted to € 6.6 million, up by 88 % on the same period last year (€ 3.5 million).

Services Division

In the first half of 2002, the Services Division achieved external sales of € 118 million, a figure not far from last year's € 119 million. At € 294, overall sales were 5 % up on the same period last year. The pre-tax profit amounted to € 6.9 million (last year: € 8.3 million). All of the companies in this Division reported a positive half-year result.

Processing Division

At € 53 million in the first half of 2002, external sales at the Processing Division were 9 % down on the same period in 2001 (€ 58 million). The pre-tax profit amounted to € -4.9 million. Hoesch Spundwand und Profil GmbH (HSP) continues to be the only consolidated company in this Division.

The remaining – thus far not consolidated – companies in the Division function as suppliers to two differing sectors: the construction and automotive industries. Whereas the desolate situation in the construction industry in Germany in particular led to negative results in a single-digit range, the automotive industry suppliers Salzgitter Europlatinen GmbH and Salzgitter Automotive Engineering GmbH returned satisfactory results. Salzgitter Antriebstechnik GmbH and Salzgitter Magnesiumtechnologie GmbH are still in a start-up phase.

Tubes Division

Despite the signs of an improvement in the economic situation, production of steel tubes worldwide is in decline due to the continuing weakness in the economy as a whole and to reducing demand from specific consumer sectors. Inventory cycle adjustments in the case of products not supplied directly by manufacturers to end-users are an additional source of pressure.

This situation is most evident in the area of seamless tubes. First half figures indicate a drop in production by Western suppliers in the order to 10 % by comparison with the outstanding performance in 2001. In the case of welded tubes up to 16-inch external diameter, production is likely to have dropped by 4 %. In the area of large tubes, the stagnating situation in the EU contrasts with sharp growth in the USA and Japan. In view of the project situation worldwide, however, it is impossible to predict whether the approximately 10 % increase in production achieved by Western manufacturers in the first half-year will be sustained.

In the first half of 2002, external sales at the Tubes Division amounted to € 583 million. This represents an increase of 19 % over the same period last year (€ 490 million). The effect of absorbing DMV and EUPEC into the groups of consolidated companies amounted to € 140 million. The pre-tax result came in at € 60.8 million, equating to an increase of 67 % over the preceding year (€ 36.3 million). Included in the result for this Division are non-operational earnings in the amount of € 10.6 million, being the balance of provisions for structure enhancement measures and the subsequent positive effect of the sale of a participating interest dating back to the year 2000.

The situation in the various product areas was as follows:

The market for oil field pipes suffered at the beginning of the financial year under the antidumping suits that American tube manufacturers were endeavoring to initiate against Germany, France and Brazil, among other countries. The rejection of these suits by the ITC in the second quarter relaxed the situation. In some cases, demand from other regions has risen markedly. On the other hand, improvements in non-energy-dependent sectors were mainly conspicuous by their absence. Traders were hesitant over rebuilding their stocks. The demand for tubes for mechanical engineering purposes remains weak, especially in Europe. At V & M do Brasil, the deteriorating economic situation in that country exerted a negative effect in the second quarter, however, the weakness of the Real had a positive effect on orders booked for oil country tubular goods destined for export. In the first half of the year orders for seamless tubes received by V & M Tubes S.A. were well down overall on the same period last year. Similarly, orders on hand at the end of June were perceptibly below last year's level.

The market for precision tubes continued to languish under the weakness of the economy. In the automotive sector, for example, there was still no revival to report by the middle of the year. However, the orders booked in the second quarter for supplies to the automobile industry in subsequent quarters pushed the order intake at Mannesmann Hoesch Präzisrohr GmbH (MHP) above the level of last year.

The increase in demand for the stainless tubes produced by the DMV Stainless group slackened in the second quarter. Nevertheless, cumulative orders are still up on the preceding year.

The market for medium line pipes picked up once more during the second quarter. Large-scale projects that had previously been postponed or delayed are now gradually coming on stream. Cumulative orders booked by Mannesmann Linepipe GmbH (MLP) are now only slightly below last year's level. At Röhrenwerk Gebr. Fuchs GmbH the order intake rose somewhat to finish the first half slightly above the preceding year's figures.

In the USA in particular, there has been a revival in the market for large tubes. Nevertheless competition for many projects remains fierce, especially for China. Orders received by Europipe GmbH in the second quarter of 2002 reached almost three times the level of the first quarter. As a result, the figure for the first half-year was slightly up on the same period last year. As a result of deliveries in connection with several major projects, however, orders on hand at Europipe at the end of June showed a further decline.

In the second quarter the consolidated order intake at the Tubes Division was significantly higher than in the first quarter, thanks to the increase in orders placed for large tubes as described above. The figure of € 481 million for the first half is 12 % up on the same period last year.

The consolidated figure of € 364 million for orders on hand at the Division at the end of June constituted a drop of some 15 % compared with last year. The decline was essentially attributable to shipments of large tubes for major projects. Orders on hand for seamless tubes are not included in these figures. In fact, the seamless tubes order book at the end of June amounted to 531 million tons, similarly down by 16 % on the same period last year.

On June 30, 2002, the Tubes Division had a regular workforce (regular employees excluding trainees) of 5,133 employees. As a result of the numerous changes in corporate structure, the figures bear only a limited comparison with the preceding year.

Outlook

In the months to come the results achieved by the Salzgitter Group will be dependent on the extent of the economic recovery in the relevant sectors and regions. The picture remains divided: advance economic indicators put forward by reputable research institutes and concrete data from industry point to a turnaround in the direction of more growth. As reported, price increases have successfully been implemented in the steel industry in parallel with a rise in orders received. Capacity utilization at plant level is currently satisfactory to good. On the other hand, the mood in the capital markets in particular is dominated by strong pessimistic sentiment with regard to the economy. It is therefore extraordinarily difficult to anticipate what turn the general economic conditions will take over the coming months.

From the perspective of the economic researchers, the picture is cautiously optimistic: overall economic growth in the EU in the year 2002 is expected to reach a moderate level of 1.1 % to 1.3 % (Germany: 0.7 % to 0.9 %). Concealed behind this average lie a weak first half-year and a somewhat more lively second half. As EU companies become less competitive on price as a result of the rise in value of the euro, exports will cease to be the sole pillar supporting economic development in future. The revival in investment in plant and equipment will have to gain in momentum in the second half of the year. One indicator in this context is the noticeable improvement in the expectations of manufacturing industry in recent months, both in terms of business in general as well as exports. Given no more than moderate price increases, the level of available income is likely to rekindle private consumption. With the revival of the domestic economy and a possible further acceleration in the pace of exports, additional growth stimuli are therefore to be expected, provided that the counter effect of financing the flood damage in the regions astride the river Elbe does not prove too strong.

Turning to the steel industry, the indicators point to a concentration of growth in actual steel consumption in the second half of 2002. End user demand is likely to recover only gradually, and it will be the end of the year before we see a return to positive rates. After a hesitant start, in view of the turnaround in the inventory cycle in the second quarter, clear growth in visible steel consumption (including the rebuilding of inventory stocks carried by steel traders) is forecast for the remainder of this year. The recovery in revenues will continue in the third and fourth quarters.

Likewise in the area of tubes, development over the coming months will be dependent on continuing economic recovery. In addition to the existing uncertainties on the demand side, the development in the steel tubes market will also be subject to the effects of exchange rate fluctuations (in particular in the euro – dollar rate) on relative competitiveness. Moreover, it remains to be seen how measures designed to restrict competition in some countries will impact on the market as a whole.

Despite the uncertain overall situation, Salzgitter AG currently sees no cause to modify its published forecast for the financial year 2002 of a consolidated pre-tax profit of some € 90 million, equivalent to a profit after taxes of € 75 million and earnings per share of € 1.20. Naturally, this statement is subject to the proviso that there is no further deterioration either in the economy or in the situation affecting the specific markets served by the member companies of the various Divisions and is dependent on the basic elements of our planning and forecasts developing as expected in terms of both time and extent.

Share price

The financial year 2002 initially witnessed a continuation of the gratifying development in both the price and stock market turnover of Salzgitter shares. From a starting point of € 9.90 in Frankfurt, the stock price showed a pleasing performance and reached an intra-day high of € 12.65 at the end of January.

In February the announcement of concrete measures by the US government in implementation of the latter's resolution to restrict the import of steel products destined for the US market triggered a fall in the share price, as was equally the case for our European competitors. In addition, the stock markets have been prey to general uncertainty regarding the pace and sustainability of world economic recovery.

The accounting scandals at various US and European companies finally led to a lasting disturbance of investor confidence and triggered a drop in share prices worldwide to below the level of September 11, 2001. The desolate mood in the second quarter similarly impacted on the price of Salzgitter stock. By the time of the General Meeting on June 19, 2002, the Salzgitter share price was holding at a level of around 11 euro. The General Meeting was then followed as expected by an ex-dividend markdown. In the final days of June the share price fell to below 10 euro. The decline was halted only temporarily by a short-lived counter reaction in early July, and the recent dissatisfying share price performance has mirrored the downturn in stock market prices in general. Nevertheless, Salzgitter AG has clearly outperformed the DAX and MDAX indices in the first half of 2002. In recent weeks capital investors have been preoccupied with the fear of renewed recession in the USA.

The average daily turnover in Salzgitter stock on Germany's stock exchanges was around 84,000. With this order of turnover and a market capitalization of some € 630 million (basis: Xetra price) at the end of June Salzgitter AG was ranked at around no. 70 among the DAX 100 companies in the Deutsche Börse AG rating list.

The annual financial statements for the financial year 2001 were presented and discussed at well-attended analyst conferences on April 29 in Frankfurt and May 1 in London. The remarks on the financial year, the strategic development of the Group and the outlook for the annual results for 2002 were accorded a highly positive reception. In addition, a series of company presentations and investor discussion meetings have taken place. Since the beginning of the financial year, some 26 research studies and recommendations have appeared concerning Salzgitter stock, with the following ratings: 20 buy/outperform, 5 hold/neutral, 1 sell/underperform (as of June 28, 2002).

At the end of the first half of the financial year 2002, members of executive organs and employees held 1,423,800 options to subscribe in each case for one Salzgitter AG share. These were issued under the 1998 share option scheme for Executive Board members and management staff.

The holding in own shares bought back on the basis of authorities granted by the General Meetings of March 16, 1999, and December 20, 2000, amounted on June 30, 2002, to a total of 527,638 shares. This holding equated to € 1,348,885 or 0.85 % of share capital. In comparison with December 31, 2001, the holding in own shares thus fell by 2,259 shares. In accordance with the objective of the authorities granted by the General Meetings, these shares were deployed at an average price of € 10.87 per share over the reporting period in lieu of payment for services rendered by third parties.

Events of significance

It was announced on June 26, 2002, by Salzgitter, ThyssenKrupp and Arcelor that the bidding consortium is to abandon its efforts to acquire four Polish steelworks. The consortium had submitted an offer to the Polish government at the beginning of October 2001 to which no official response has ever been forthcoming. The members of the consortium could now establish contact with the government directly in order to take further action as appropriate. Salzgitter will not be resuming negotiations.

Production of seamless precision and roller bearing tubes at MHP Mannesmann Presné Trubky s.r.o. in Chomutov (Czech Republic) ceased at the end of April 2002 as planned. A part of the former product range including existing orders and stocks of materials was transferred to other MHP plants. All of the shares in this company held by Salzgitter AG were sold on July 10, 2002.

With effect from July 1, 2002, VALLOUREC & MANNESMANN TUBES has acquired the steel tubes activities of US enterprise North Star Steel Company with production plants in Youngstown (Ohio) and Houston (Texas). The name of the newly established company is V & M STAR. The takeover took the form of the purchase of assets at a purchase price of US $ 380 million, 80.5 % of which was undertaken by V & M TUBES and 19.5 % by Sumitomo Corp., North Star's long-standing distribution partner. V & M TUBES is now the world market leader in seamless tubes. This acquisition improves its position in the American market and increases its production capacity by 25 %. North Star/V & M STAR is a leading manufacturer of high-quality seamless tubes in sizes ranging form 5 to 10 $^{3}/_{4}$ inch for the oil and gas industry (OCTG tubes). Some 80 % of the company's annual production capacity of 500,000 tons is accounted for by the OCTG sector. North Star's Steel Tubes Division employs a workforce of around 560 and generated sales of approximately US $ 328 million in 2001, with pre-tax profits of US $ 70 million.

Negotiations and investigations concerning the acquisition of additional participating interests in the steel processing industry have been continued.

Consolidated Income Statement January 1, 2002 to June 30, 2002

	2nd quarter		1st half-year	
€ T	**01.04. – 30.06.02**	**01.04. – 30.06.01**	**01.01. – 30.06.02**	**01.01. – 30.06.01**
Sales	1.194.293	1.143.290	2.366.542	2.282.849
Increase or decrease in finished goods and work in progress and other own work capitalized	-32.985	21.664	-37.671	9.595
Other operating income	51.808	40.076	78.671	62.521
Cost of materials	756.096	766.461	1.523.088	1.500.167
Personnel expenses	224.838	202.175	444.826	398.440
Amortization and depreciation on intangible and tangible assets	55.218	50.039	110.869	100.801
Other operating expenses	149.150	147.623	280.969	261.782
Income from shareholdings	1.183	-4	1.306	26
Income from associated companies	24.896	19.257	48.651	31.538
Net interest income	-24.042	-20.336	-47.802	-41.075
Net operating income	**29.851**	**37.649**	**49.945**	**84.264**
Taxes	1.947	3.198	1.058	13.298
Consolidated net income for the year	**27.904**	**34.451**	**48.887**	**70.966**
Net income due to minority shareholders	1.758	527	2.717	1.003
Net income due to shareholders of Salzgitter AG	**26.146**	**33.924**	**46.170**	**69.963**
Appropriation of income				
Net income due to shareholders of Salzgitter AG			46.170	69.963
Non-distributed income brought forward from previous year			28.014	46.011
Dividends			-25.918	-32.816
Transfer to/Withdrawal from other retained earnings			-36.012	-42.606
Non-distributed income to Salzgitter AG			**12.254**	**40.552**
Earnings per share (in €)			**0,75**	**1,19**

Consolidated Balance Sheet at June 30, 2002

Assets € T	30.06.2002	30.06.2001
Fixed assets		
Intangible assets	-258,658	-317,365
Goodwill/negative goodwill from capital consolidation	-275,142	-333,049
Other intangible assets	16,484	15,684
Tangible assets	1,453,945	1,338,419
Financial assets	270,040	162,605
Shareholdings in associated companies	519,224	462,493
	1,984,551	**1,646,152**
Current assets		
Inventories	848,048	754,306
Receiveables and other assets	971,220	861,098
Trade receiveables	750,117	725,121
Other receiveables and other assets	221,103	135,977
Trade securities	392	291
Cash and cash equivalents	71,773	270,769
	1,891,433	**1,886,464**
Prepaid expenses for deferred taxes	**718**	**924**
Prepaid expenses	**10,786**	**15,383**
	3,887,488	**3,548,923**

Shareholders´ equity and liabilities € T	30.06.2002	30.06.2001
Shareholders´ equity		
Subscribed capital	159,523	159,523
Capital reserves	287,530	287,530
Retained earnings	648,070	549,825
Non-distributed income	12,254	40,552
	1,107,377	**1,037,430**
Treasury shares	-6,310	-6,792
	1,101,067	**1,030,638**
Minority interests	**22,408**	**8,694**
Provisions		
Provisions for pensions and similar obligations	1,518,745	1,533,767
Tax provisions and other provisions	451,172	424,705
	1,969,917	**1,958,472**
Liabilities		
Bonds	3,640	3,742
Liabilities to banks	165,391	86,000
Trade payables	328,061	295,028
Other liabilities	288,460	152,536
	785,552	**537,306**
Deferred income	**8,544**	**13,813**
	3,887,488	**3,548,923**

Cash Flow Statement according to IAS 7
January 1, 2002 to June 30, 2002

€ T	01.01. – 30.06.2002	01.01. – 30.06.2001
Net income for the year	46,170	69,963
Depreciation (+)/appreciation (-) on fixed assets	109,308	100,801
Other expenses (+)/income (-) not affecting payments	-7,713	-17,457
Interest expenses	54,987	52,972
Profit (-)/loss (+) from disposal of fixed assets	-7,199	1,057
Increase (-)/decrease (+) in inventories	27,565	1,748
Increase (-)/decrease (+) in trade receiveables and in other assets that cannot be allocated to investment or financing activities	-112,300	-124,592
Increase (+)/decrease (-) in provisions	-94,026	-86,521
Increase (+)/decrease (-) in trade payables and in other liabilities that cannot be allocated to investment or financing activities	23,887	25,610
Cash flow from operating activities	**40,679**	**23,581**
Payments received from disposals of fixed assets	4,342	812
Payments made for investments in intangible and tangible assets	-100,262	-114,962
Payments received from disposals of financial assets	0	551
Payments made for investments in financial assets	-67,500	-12,957
Cash flow from investment activities	**-163,420**	**-126,556**
Payments made for buy-back of own shares	-81	32,819
Dividend payments	-25,918	-32,816
Payments received from bond issues and amounts borrowed	10,471	0
Repayments of bond issues and amounts borrowed	-10,320	-49
Interest paid	-6,307	-7,164
Cash flow from financial activities	**-32,155**	**-7,210**
Cash and cash equivalents at beginning of period	226,669	380,954
Changes in cash and equivalents affecting payments	-154,896	-110,185
Cash and cash equivalents at end of period	**71,773**	**270,769**

Statement of Changes in Equity

The shareholders equity in the Group has developed as follows:

€ T	Subscribed capital	Capital reserves	Retained earnings	Thereof from currency translation	Buy-back of own shares	Fair value to IAS 39	Group net income for the year	Share-holders´ equity
At 01.01.2001	**159,523**	**287,530**	**455,773**	**-7,143**	**-37,937**	**0**	**46,011**	**910,900**
Net income for the year							69,963	69,963
Dividend							-32,816	-32,816
Fair value to IAS 39						52,324		52,324
Buy-back of own shares					31,145			31,145
Currency translation			-878	-878				-878
Transfer by Salzgitter AG to retained earnings			42,606				-42,606	0
Other								0
At 30.06.2001	**159,523**	**287,530**	**497,501**	**-8,021**	**-6,792**	**52,324**	**40,552**	**1,030,638**
At 01.01.2002	**159,523**	**287,530**	**572,201**	**-16,410**	**-6,225**	**44,206**	**28,014**	**1,085,249**
Net income for the year							46,170	46,170
Dividend							-25,918	-25,918
Fair value to IAS 39						9,028		9,028
Buy-back of own shares					-85			-85
Currency translation			-4,947	-4,947				-4,947
Transfer by Salzgitter AG to retained earnings			36,012				-36,012	0
Disposal through deconsolidation			-8,452					-8,452
Other			22					22
At 30.06.2002	**159,523**	**287,530**	**594,836**	**-21,357**	**-6,310**	**53,234**	**12,254**	**1,101,067**

Notes

Principles of accounting and consolidation, balance sheet reporting and valuation methods

The consolidated financial report of Salzgitter AG, Peine, for the reporting period from January 1 to June 30, 2002, has been prepared as a condensed report with selected details annexed. The report has been prepared in accordance with the International Accounting Standards (IAS) published by the International Accounting Standards Board (IASB) in consideration of the reduced requirements contained in IAS 34 for condensed interim reports.

The half-year report has been prepared pursuant to the same balance sheet reporting and valuation, accounting and consolidation methods as were applied to the annual financial statement to December 31, 2001.

In comparison with the annual financial statement to December 31, 2001, two companies have been deconsolidated from the group of consolidated companies. One of these was a German, the other a foreign company, which had both previously been fully consolidated.

Selected explanations of the income statement

Sales by Divisions are illustrated under the heading of segmental reporting. The organization of the Group into the five Steel, Trading, Services, Processing and Tubes Divisions remains unchanged in relation to the annual financial statement.

Earnings per share have been calculated pursuant to IAS 33. The undiluted earnings per share based on the weighted number of shares in Salzgitter AG amounted to € 0.75.

Future reporting dates

November 27, 2002
Interim Report on the first
9 Months of 2002

December 31, 2002
Financial Year 2002 ends

March 13, 2003
Key Data for Financial Year 2002

April 15, 2003
Balance Sheet Press Conference

April 16, 2003
Analysts Conference, Frankfurt

April 17, 2003
Analysts Conference, London

Mai 28, 2003
General Meeting to consider the Financial Year 2002

Legal Disclaimer

Certain statements in this report are or could be construed as forward-looking. Factors that cause actual results to differ materially from these forward-looking statements include the ability to achieve the benefits from the company's ongoing continuous improvement and rationalization process, changes in customer demand and a weak global economy.

The company undertakes no obligation to update any forward-looking statements.

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